

# 金融展望月刊

## Financial Outlook Monthly

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- The FSC will continue to implement financial measures to support the New Southbound policy
- The FSC invited domestic banks to join the discussion on establishment of special unit for information security
- The FSC explained the Review Criteria for the Application for Tax Credit for the Research and Development Expenses of Financial Institutions
- The FSC has relaxed the limitation of short sale transactions per day during the trading session

### Policy and Law

#### *The FSC will continue to implement financial measures to support the New Southbound policy*

In order to support the New Southbound policy of the Executive Yuan, the FSC has provided supportive financial measures to help enterprises access financial resources and services needed for expanding their business in the target countries of new southbound policy. The FSC has also developed related key performance indicators, which have been in use since 2017.

1. The FSC has encouraged domestic banks to extend credit to domestic businesses or local Taiwanese businesses in these countries with an aim to increase the total amount of credit granted to these enterprises for their business activities in the target countries of the New Southbound policy by 5%±2%, reaching an amount between NT\$799.9 billion and 831 billion as of the end of 2017.
2. The FSC aims to increase the total amount of approved loans (including loans for overseas investments, export loans and overseas construction project financing) granted by the Export and Import Bank of the R.O.C. ("the Export and Import Bank") for business development of domestic enterprises in the target countries of the New Southbound policy by 4.95% per year. The target for the end of 2017 is NT\$10,821 million.
3. The FSC also aims to increase the total amount of guarantee provided by the Export and Import Bank for business development of domestic enterprises in designated countries of new southbound policy by 2% per year. The target for the end of 2017 is NT\$1,271 million.
4. The FSC helps domestic banks expand their presence in the target countries of the New Southbound policy. The FSC aims to grant such approval to 3 overseas establishments per year.

In order to reach the aforementioned targets, the FSC has implemented the following measures:

1. The FSC has set forth the "Program to Incentivize Lending by Domestic Banks to Enterprises in Target Countries of the New Southbound Policy" and publicly recognizes contribution of banks with outstanding performance in this regard. The ratio of loan guarantee provided by the Overseas Credit Guarantee Fund (Taiwan) is one of the performance assessment indicators.
2. The FSC has continuously attempted to improve the conditions of market access of these countries for domestic financial industry through bilateral or multilateral mechanisms. The FSC has also enhanced cross-border supervisory cooperation with foreign competent authorities. The FSC has cut through red tape for applications by banks attempting to set up foreign branches to facilitate overseas operation of financial institutions.
3. The FSC has asked the Bankers Association to create a database to provide information helpful for expanding overseas presence, including the business environment of the major target countries of the New Southbound policy and related research and reports,

to its member banks for reference.

4. The FSC has asked the Bankers Association and Taiwan Academy of Banking and Finance to help banks cultivate presence-expansion talent as part of the implementation of the New Southbound policy, including provision of talent education and training about the policy and recruiting and developing talent familiar with the languages and cultures of countries in Southeast Asia.
5. The Banking Bureau has created a specific section for the New Southbound policy on its website to provide information about overseas presence of domestic banks in designated countries of new southbound policy (the link: <http://www.banking.gov.tw/ch/home.jsp?id=454&parentpath=0,8>). The section also provides links to specific sections on the New Southbound policy created by the Bankers Association, the Export and Import Bank and Bureau of Foreign Trade under Ministry of Economic Affairs. Domestic businesses in these countries can easily access financial services of domestic banks and get related information in a real-time manner.

As of the end of January, 2017, the aforementioned efforts had achieved the following results:

1. A total of NT\$781.8 billion of credit had been extended to businesses in New Southbound policy target countries.
2. A total of NT\$915 million of loans had been extended to businesses in target countries by the Import and Export Bank and a total of NT\$125 million guarantee had been provided.
3. The FSC approved the application of Chang Hwa Commercial Bank for setting up a branch in Manila, the Philippines. It also had approved the application of Taiwan Cooperative Bank for setting up a branch in Melbourne, Australia and a City Center sub-branch under its existing branch in Phnom Penh, Cambodia.

According to the FSC, it will regularly review the progress in implementation of the key performance indicators and urge banks to reach to targets set for the key performance indicators. It will also continue to work with related agencies to provide financial support needed by these businesses in order to create win-win situation for the businesses and financial industry by providing these businesses financing resources and facilitating their development in the target countries of New Southbound policy.

### **The FSC invited domestic banks to join the discussion on establishment of special unit for information security**

As ICT technology evolves and banks have created digital environment for operating purposes, Fintech has become a trend of future development. As banks face increasing information security risks, the FSC invited general managers of all domestic banks to attend the meeting for the discussion on the establishment of special units and the management for information security and related information security matters on February 24, 2017. General managers attending the meeting freely exchanged their views regarding the structure of information security activities, current status and future planning. They reached the following consensuses:

1. The FSC expects domestic banks to establish a special unit for information security, assign managers of a specific level to take charge of its operation and allocate adequate manpower and resources in a step-by-step manner within six months based on their size, complexity of their business activities and operating risks for effective execution of their information security plans and activities. In the future, such units shall be upgraded and become independent special departments in order to maintain independence of the operation.
2. In order to cope with issues arising from Fintech development, the FSC has asked the Bankers Association to continue to amend the industry code regarding information security in a timely way, based on the current information security situation.

The FSC gave a presentation on regulatory requirements for information security in the meeting and asked banks to foster information security culture, comply with related information security regulations and fully implement contingency plan and reporting mechanism for information security. In the future, information security measures will be a priority of financial examination in order to reinforce the information security of financial institutions.

### **The FSC explained the Review Criteria for the Application for Tax Credit for Research and**

### **Development Expenses of Financial Institutions**

In order to encourage financial institutions to put emphasis on the influence of financial patents and timely adopt responsive strategies, on May 16, 2016, the FSC asked the Bankers Association and the Bills Finance Association to inform their member institutions of application procedures for tax credit for their research and development expenses.

In 2016, a total of three financial institutions submitted their applications to the FSC, including E.SUN Financial Holding Co., E.Sun Commercial Bank and First Commercial Bank. The FSC established a review task force composed of scholars and experts and held meetings for discussion over the applications. The FSC has also reviewed these applications based on the implication of "highly innovative" as specified in Article 2 of the Regulations Governing Tax Credit for Research and Development Expenses of Companies. The review concluded that the application for the "HCE Cellphone Credit Card" submitted by E.Sun Commercial Bank is highly innovative and the R&D activities and the expenses arising from such activities are eligible for the tax credit according to the Regulations.

According to the FSC, it allows financial institutions to apply for tax credit for their R&D expenses with the aim of encouraging innovative R&D in financial industry. The FSC hopes that financial institutions can develop innovative or pioneering products, services or techniques to boost overall competitiveness of the industry.

### **The FSC has relaxed the limitation of short sale transactions per day during the trading session**

In order to increase the trading efficiency of the securities market and take full advantage of the market mechanism, the FSC relaxed the limitation of short sale transactions per day during the trading session on February 23, lifting the ceiling from 20% of average daily trading volume of specific securities in the previous 30 business days to 30%.

### **The FSC and the Ministry of Economic Affairs held a cross-agency liaison meeting for helping small and medium enterprises to access financial resources**

In order to encourage banks to create long-term partnership with small and medium enterprises and facilitate sound operation of bank lending to SMEs, the FSC kicked off the "Program to Encourage Lending by Domestic Banks to Small and Medium Enterprises" on July 1, 2005. As of the end of 2016, the program had been implemented for 11 years. In 2017, it is going to enter the 12<sup>th</sup> year of its implementation. In order to effectively help small and medium enterprises access financial resources needed for their operation activities, the Small and Medium Enterprise Administration of Ministry of Economic Affairs and the Banking Bureau of the FSC has established a platform for cross-agency liaison on SME financing. Two meetings were held in November and December last year through this platform. On March 3, 2017, Director General Ming-ji Wu of the Small and Medium Enterprise Administration and Director General of Banking Bureau Li-Chuan Wang held the third meeting to address SME financing issues through regular liaison between the two government agencies.

Some small and medium enterprises have said that the interest rates of loans with high coverage ratio of credit guarantee provided by the Small and Medium Enterprise Credit Guarantee Fund of Taiwan ("the Fund") are relatively high or the loan requires another guarantor in addition to the nominal or actual responsible person or has to be secured by collateral. The Small and Medium Enterprise Administration of Ministry of Economic Affairs, the Banking Bureau of the FSC, the Fund, and the Bankers Association of the Republic of China ("the Bankers Association") have come up with solutions for improvements after discussion and will provide assistance through one single service center. Small or medium enterprises faced with financing problem can contact the service center of the Ministry of Economic Affairs for help (service line: 0800-056-476).

After the cross-agency communication in the first two meetings, the Bankers Association informed its members to do their best to provide SMEs with preferential interest rates for policy type loans supporting SMEs' purchase of machinery and equipment according to the letter from the Small and Medium Enterprise Administration of the Ministry of Economic Affairs. The Bankers Association has also introduced a new provision in the second paragraph of Article



20 of the Guideline Governing Credit Granted by Members - when a bank asks the loan applicant to provide a guarantor, it shall carefully review the guarantor's credentials and the ability to honor the guarantee and shall not indiscriminately require the loan applicant to provide a guarantor or joint guarantor that does not contribute to enhancement of guarantees. If a bank asks the loan applicant to provide a joint guarantor, it shall inform the joint guarantor of the rights and obligation as the guarantor and the scope of guarantee. The Bankers Association has informed its members to adapt their credit policies to the new provision with a letter. The new provision is expected to help SMEs access financing resources and get more favorable loan terms.

In order to encourage entrepreneurship, the FSC will study the realistic practices for waiving the requirement of providing another guarantor other than the responsible person and collateral for loans granted to young entrepreneurs with high coverage ratio of credit guarantee by the Fund. Moreover, the FSC will actively urge credit cooperatives to join the Fund according to the proposal presented in the meeting for implementation of inclusive financial policies, in order to help people in remote areas and underprivileged groups access more financial services.

### ***Amendment to Article 9 of the Regulations Governing Management and Utilization of Collective Investment Trust Funds***

On March 14, 2017, the FSC introduced the amendment to subparagraph 7, paragraph 1 of Article 9 of the Regulations Governing Management and Utilization of Collective Investment Trust Funds. When a trust enterprise is entrusted by non-professional investors to collectively manage and utilize trust funds (with the establishment of a collective investment trust account), the ceiling on aggregate amount of deposits at the same financial institution is now raised from 20 percent to 30 percent (of the net asset value of all collective trust accounts managed by the trust enterprise) for practical need consideration.

### ***Amendments to the Regulations Governing Information to be Published in Financial Institution Prospectuses for Offering and Issuance of Securities and the Regulations Governing Information to be Published in Annual Reports of Financial Holding Companies and other related regulations***

In order to enhance disclosure requirements for corporate governance information, facilitate development of the bond market, and enhance functions of underwriters, the FSC introduced amendments to the Regulations Governing Information to be Published in Financial Institution Prospectuses for Offering and Issuance of Securities on March 3, 2017. The FSC also introduced the amendments to the Regulations Governing Information to be Published in Annual Reports of Financial Holding Companies, the Regulations Governing Information to be Published in Annual Reports of Banks, and the Regulations Governing Information to be Published in Annual Reports of Bills Finance Companies on the same day to increase the transparency of corporate governance and other information.

### ***Amendments of some articles in five sets of regulations governing financial report preparations, including the Regulations Governing the Preparation of Financial Reports by Securities Firms***

As domestic public companies are required to adopt the latest version of International Financial Reporting standards endorsed by the FSC (IFRSs) in 2017, the FSC reviewed domestic adoption of the IFRSs and outdated regulations. After the review, the FSC has amended to some articles of the Regulations Governing the Preparation of Financial Reports by Company-Type Stock Exchanges, the Regulations Governing the Preparation of Financial Reports by Company-Type Futures Exchanges, the Regulations Governing the Preparation of Financial Reports by Futures Clearing Houses, Regulations Governing the Preparation of Financial Reports by Securities Firms and the Regulations Governing the Preparation

of Financial Reports by Futures Commission Merchants on February 10 and February 14, respectively.

The FSC also announced related forms and document checklists. The key points of the amendments are as follows:

- (1) adding the item of "held for distribution to owners" to align with the latest version of the IFRSs, setting the requirements for asset depreciation or amortization and specifying the information to be disclosed for impairment evaluation of non-financial assets.
- (2) enhancing the disclosure of related-party transactions and evaluating revenue recognition method based on economic substance of the transaction according to the review of current regulations based on domestic IFRSs adoption.

## ***International Activities***

### ***Representative of the British Office Taipei, Catherine Nettleton Visits FSC***

FSC Chairman Li received Catherine Nettleton, Representative, British Office Taipei, on February 15, 2017. The two sides discussed a wide range of issues, including green finance and financial technology.

## ***Industry Updates***

### ***FSC agrees to allow Chang Hwa Commercial Bank to apply to set up Chang Hwa Commercial Bank (Cambodia) in Phnom Penh***

On February 21, 2017, FSC agreed to allow Chang Hwa Commercial Bank to apply to the local competent authority in Cambodia to establish Chang Hwa Commercial Bank (Cambodia) in Phnom Penh. The new company will exclusively conduct credit business. At present, Taiwanese banks have the following presence in Cambodia: Cathay United Bank has a subsidiary bank; First Commercial Bank, Mega International Commercial Bank and Taiwan Cooperative Bank have branches; The Shanghai Commercial & Savings Bank has a representative office; E.Sun Commercial Bank has a 75% stake in Union Commercial Bank Plc. (UCB).

### ***FSC allows CTBC Bank to apply to invest in LH Financial Group Public Company Limited in Thailand***

On March 7, 2017, FSC agreed to allow CTBC Bank to apply to the competent authority in Thailand to invest NT\$16.6 billion (around NT\$15.2 billion) in LH Financial Group Public Company Limited's capital increase by cash through private placement to acquire a 35.6% stake. Taiwanese banks' presence in Thailand at present is as follows: Mega International Commercial Bank has a subsidiary bank; CTBC Bank, Cathay United Bank, The Shanghai Commercial & Savings Bank, First Commercial Bank, and The Export-Import Bank of the R.O.C. each has a representative office in Bangkok. This case will be the first case that a domestic bank has invested in a Thai financial holding company in the form of equity participation.

### ***NPL ratio for domestic banks at 0.29% as of the end of February 2017***

The total outstanding loans of domestic banks stood at NT\$26,125.2 billion as of the end of February 2017, down by NT\$36.1 billion from the previous month, while their total NPLs were NT\$76.6 billion, up by NT\$6 billion from the previous month's figure of NT\$70.6 billion, generating an average NPL ratio of 0.29%, up by 0.02 percentage points from 0.27% at the end of previous month. The NPL coverage ratio of Taiwan's domestic banks stood at 462.77% at the end of February 2017, down by 42.42 percentage points from the figure of 505.19% at the end of the previous month.

### ***NPL ratio for credit cooperatives at 0.11% as of the end of February 2017***

Total NPLs at Taiwan's 23 credit cooperatives stood at approximately NT\$507 million as of the end of February 2017, generating an NPL ratio of 0.11%, the same as the figure for the end of January 2017. The NPL coverage ratio, in the meantime, was

1,645.24%, down by 87.13 percentage points from 1,732.37%, at the end of January 2017.

## **Net foreign investments in listed shares**

As of the end of February 2017, foreign and mainland China investors had bought around NT\$901.896 billion and sold around NT\$806.597 billion worth of shares on the Taiwan Stock Exchange, making for a cumulative net inward investment of around NT\$95.299 billion. Meanwhile, for the Taipei Exchange, foreign and mainland China investors bought around NT\$ 75.544 billion and sold around NT\$75.186 billion, making for a net inward investment of around NT\$359 million. The figure for cumulative net inward remittances by offshore foreign institutional investors, Mainland China investors, offshore overseas Chinese, and offshore foreign nationals as of the end of February 2017 stood at approximately US\$205.333 billion, up by around US\$3.316 billion from the US\$202.017 billion as of the end of January 2017.

## **Investor and Consumer Protection**

### **FSC promotes big data applications and analysis for residential loans and industry financial statistics**

To actively promote the application of big data and encourage the creative use of government open data by the private sector to increase the effectiveness of government policy, FSC has collaborated with peripheral financial institutions in formulating and promoting the "Program for Opening and Utilization of Big Data" since 2015. Among these institutions, the Joint Credit Information Center (JCIC) established the Residential Loan Statistical Information and Industry Financial Statistical Information application platforms in 2015. To make use and searching easy for the public, the JCIC completed the establishment of the Residential Loan Statistics Search Site and Industry Financial Statistics Search Site in 2016 and posted them on its website for the use of interested parties.

The Residential Loan Statistics Search Site provides access to residential loan data from 2009 to the end of 2016 and has a user-friendly search interface that allows users to conduct various types of cross analysis. Users can set their own search conditions to receive different results. The Industry Financial Statistics Search Site is a big data application platform that was developed on the basis of financial reports certified by CPAs for around 35,000 companies each year and credit data for loans given by financial institutions to 160,000 enterprises. It provides three types of information from 2001 to 2016, namely industry financial ratio, financial amount and credit statistics.

FSC stated that the public can, according to their own needs, go directly to the Residential Loan Statistical Information and Industry Financial Statistical Information platforms in the open data special zone on the JCIC's website (<http://www.jcic.org.tw>) to obtain the information they need. All quarters are invited to make good use of these platforms.

### **Insurance industry takes the initiative in caring for victims after a tour bus overturns on Freeway No.5**

A serious crash involving a tour bus occurred on February 13, 2017 on Freeway No.5. After the crash, FSC immediately required the underwriting insurers to voluntarily show concern for policy holders and actively help victims and relatives deal with insurance claim matters.

### **FSC reminds the public that residential fire related insurance can be purchased according to their own needs to cover their home and property**

To protect against home and property loss, FSC reminds the public that they should pay attention to the insurance amount, insurance

coverage, changing nature of use, claim application, and other matters, when buying residential fire insurance.

### **FSC reminds consumers of important matters when taking out physical damages automobile insurance**

People in Taiwan generally utilize automobiles in their everyday transportation and take out physical damage automobile insurance to transfer risks of car damages or destruction in an accident. As types of physical damage automobile insurance and their coverages differ from each other, the FSC reminds consumers to carefully assess their own needs before taking out physical damage automobile insurance.

### **2017 School and Community Financial Literacy Campaign**

In March 2017, FSC held 42 financial literacy promotion sessions at schools and groups, including at Silin Elementary School in Pingdong County, as part of its 2017 School and Community Financial Literacy Campaign. A total of 5,152 participants attended. These sessions are free of charge and have been very well received since their inception. As of the end of 2016, 4,771 sessions have been held and attended by over 840,000 persons. Target participants include students from elementary, junior high, high schools and universities, community and women's groups, indigenous people, immigrants, and military service personnel.

The FSC's Banking Bureau will continue its financial literacy campaign in 2017. Schools or community groups interested in the campaign are invited to register on the website of the Banking Bureau; for more information, please call(02)89689709.

## **Major Enforcement Actions**

### **Cathay Century Insurance fined NT\$4.2 million and given four reprimands**

When carrying out an inspection of Cathay Century Insurance's ordinary business, FSC found that the company did not file the trading counterparts of interested parties, had failed set up a mechanism for regular checking and notification with respect to payable claims payments and unearned premiums that were not paid to policy holders, when conducting automobile insurance claim operations, it did not pay compensation in accordance with the terms of the insurance policy, it commissioned others to handle operations, and had failed to include matters required to be included in contracts actually in contracts. For these breaches of Insurance Act regulations, the company was thus fined NT\$4.2 million and given four reprimands under related insurance regulations.

### **Aon Taiwan Ltd. fined NT\$600,000 and ordered to rectify within one month**

Aon Taiwan Ltd. was found to be in violation of the regulations with regards its commercial fire insurance policies. The company was thus fined NT\$600,000 and ordered to take corrective action within one month under related insurance regulations.

### **Taiwan Cooperative Securities Investment Trust Co., Ltd given a warning. Former chairman Xie, internal audit manager Yang and former sales person Pan suspended**

Taiwan Cooperative Securities Investment Trust Co., Ltd was found to have accepted an application for account number change from an illegible applicant and then applied to the Taiwan Stock Exchange for account number change using a false reason; former chairman Xie also used another person's account to trade securities in violation of securities administration regulations. For these violations, Taiwan Cooperative Securities was issued a warning and former chairman Xie, internal audit manager Yan and former salesperson Pan were suspended.